ESG strategies are mission critical for sustainability

An international roundtable of C-suite thought leaders at global companies discuss how they are meeting the challenge of driving ESG criteria through the supply chain in pursuit of sustainability goals, including net zero targets

Jim McClelland

Environmental, social and governance (ESG) criteria are fast emerging as key indicators adopted by the investment community for measuring and tracking business sustainability. As a result, driving ESG through the supply chain has become a prime focus for responsible businesses keen to manage reputational risk in the face of increasing shareholder and activist scrutiny.

Brought together exclusively for this special report, the roundtable featured a diverse mix of perspectives drawn from across a range of industries and business sectors: recruitment and employment, healthcare, software, industrial sustainability, logistics and parcel delivery, and ethics and compliance.

While driving ESG in supply chains is doable and can be a dynamic force for positive change and growth, it is still far from easy. The panel debate addressed six key areas of challenge that are particularly difficult to tackle, but critical for success: governance, scope-three emissions, 'walking the talk,' culture change, partnerships and compliance.

Roundtable attendees

Karen Alonardo, vice-president of ESG solutions, Navex Global

Patrick Fetzer, president & CEO, Castolin Eutectic

Nancy Hobhouse, head of ESG, Hermes

Richard Howells, vice-president, solution management for digital supply chain, SAP

Karin Reiter, global head of ESG & sustainability, Adecco Group

Emir Sassi, global head of procurement sustainability, Novartis

Governance: putting the 'G' in ESG

While all three ESG criteria are inevitably interrelated, for Karin Reiter, global head of ESG and sustainability, at Adecco Group, governance is probably still the bedrock on which sustainable value creation is built. She says: "It is the 'G' in ESG that really underpins the ability of a company to achieve its environmental and social goals. The 'G' enables us to thrive from an 'E' and and 'S' perspective."

Given the recent acceleration in ESG-driven legislation and regulation at a national level, but also a supranational level, there has been a specific focus on human rights due diligence across the value chain.

This has raised the stakes for risk, adds Reiter: "For companies, the risk of getting it wrong is increasingly reputational damage, compliance costs, also the potential loss of business, plus the question of your ability to attract talent, beyond the societal impact."

Tackling scope three is tough

When it comes to supply chain ESG challenges, though, they do not get much tougher than tackling scope-three emissions, suggests Emir Sassi, global head of procurement sustainability, at Novartis.

Greenhouse gas (GHG) emissions are broken down into three groups or 'scopes'. Scope one refers to direct emissions. Scope two refers to indirect emissions from the likes of purchased energy generation. It is scope three, however, that covers all other indirect emissions from the company value chain.

For a company like Novartis, which has a stated ambition to become carbon neutral by 2030, scope three is not just hard, but huge, explains Sassi: "Why is it tough? The size of scope three as part of our total GHG emissions is more than 90%. It is by far the biggest portion. What we emit in from our factories, offices and vehicles and from the energy we consume is less than 10%; all the rest sits with our supply chain. Scope three is tough because it's big and we don't manage it directly."

> Sustainability is a hot topic – great in theory, but hard in practice. The key is bringing together the business processes and systems with the wealth of data that is now available to help optimise supply chain visibility

Needing to 'walk the talk' on digital

All too often, it seems organisations simply talk of 'going digital,' as if ESG data alone might somehow solve their supply chain issues. However, to 'walk the talk,' business needs formal structures in place, argues Richard Howells, vice-president, solution management for digital supply chain, at SAP: "Sustainability is a hot topic – great in theory, but hard in practice. The key is bringing together the business processes and systems with the wealth of data that is now available to help optimise supply chain visibility and drive business decisions around sustainability."

Earlier this year, SAP conducted a survey in conjunction with Oxford Economics of a thousand supply chain executives from around the world, across all industries. What the findings show is that while almost nine out of 10 (88%) firms have either created a clear mission statement around sustainability or are in the process of writing one; barely more than half (52%) have put these words into action to reduced shipping miles, for example.

When talking about scope-three emissions, the research revealed a drop down to little more than one in five (21%) respondents having complete visibility into their supply chain sourcing.

Mindsets matter for cultural change

Tools are vital for analytics around ESG. However, for embedding corporate values into best practice and supply chain behaviours, mindsets matter too. The challenge is not just knowing that company culture counts, but doing something about it, argues Patrick Fetzer, president and CEO, Castolin Eutectic: "Employees make decisions every day. You can put a lot of policies in place, but you cannot make each of these decisions yourself, and you cannot check them all the time. This is where culture comes in."

For Fetzer, sending the right signals on culture is not a one-off task. The tone needs to be set at the top, then developed day-to-day. This is why, for instance, Castolin Eutectic has signed up to the UN Global Compact, to really subscribe openly to its ESG commitments, Fetzer says: "How do you drive cultural change? It really starts with the mission and the purpose. Employees, customers, stakeholders need to understand what the company stands for and ESG and sustainability is part of this story."

Partnerships feed on open conversation

As a company that delivers around 650m parcels for the top 80% of retailers in the UK, Hermes Parcelnet is itself a big player in a lot of company supply chains.

These supply chains are complicated, which is why collaboration is critical, says Nancy Hobhouse, head of ESG at Hermes: "Where we are with ESG, whether you are looking at the 'E', the 'S', or the 'G', the whole point of it is that you can't fix it all by yourself. Partnerships are really key. Unless you are working with both your suppliers and also your clients, you are never going to hit those targets."

Looking ahead, success in creating this collaborative ethos behind sustainable business will depend on better communication, she adds: "We need to have a more open and honest conversation across the entire value chain. And we need to make that conversation loud and intense; and have it with a lot of people, if we are to move forward together."

84%

of companies identified ethical risks within their supply chains

29%

Only 29% of companies explain how they plan on demonstrating progress in their modern slavery statements

Bolt Burdon Kemp, 2021

Ethics: the supply chain is not faceless

Ultimately, much of the challenge of driving ESG in supply chains comes down to translating the absolutes of ethics into the practicalities of compliance. This is never an easy task, but, fundamentally, you need to start with humanity, says Karen Alonardo, vice-president of ESG solutions, at Navex Global: "The bottom line is that the supply chain is not faceless. Sometimes we in companies, or just as consumers, tend to forget there are real people in the supply chain, bringing these products and materials to us."

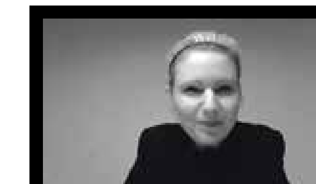
For Alonardo, though, change is in the air – as evidenced by the emergence of state legislation to address inequality and injustice in terms of working conditions and practices.

Both the UK Modern Slavery Act and the California Transparency in Supply Chain Act, for example, have been around for over five years now. Germany has also just passed into law its Supply Chain Due Diligence Act, which will come into effect in 2023.

With the spread of regulation, therefore, wrapping ethical components into compliance will become faster in future, especially if we harness the benefits of technology to establish baselines and start measuring progress. Alonardo adds: "The human element is a critical component, but also I am a technologist. Technology has a big play in this; bringing together ESG solutions that can help enable companies and their suppliers to meet some of these ethical challenges across the supply chain. From human rights and child labour, to conflict minerals and more, there is a still a lot of work to be done."

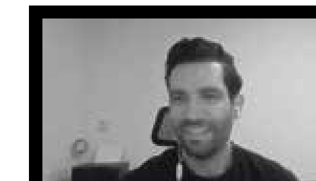
For more information visit navexglobal.com/esg

How will supply chains change in the near future?



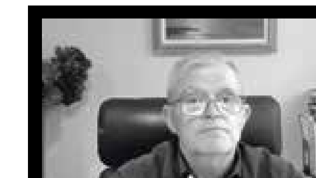
Karin Reiter, global head of ESG & sustainability, Adecco Group

"We are moving away from viewing people as a mere resource, so taking a truly human-centric approach that prioritises investments in people. People and the skills they offer need to be at the heart of the green transition. We need a new social contract, that ensures all forms of work across the value chain are secure and sustainable."



Emir Sassi, global head of procurement sustainability, Novartis

"Five to 10 years can make a big difference. We all know the deadline of 2050 and the need to limit global warming to below 1.5C, but many still think we have 30 years to go to start acting on it. Reality is we haven't. The 'E' in ESG is not just an ambition; people need to understand the urgency. We can all succeed together. Everyone has a role to play."

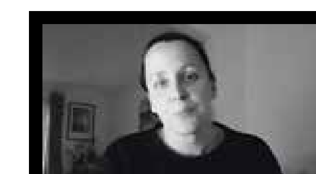


Richard Howells, vice-president, solution management for digital supply chain, SAP

"The reality is that whether we are talking about climate change, or the circular economy, or anything sustainability-related, our supply chains sit right in the middle – both as a major contributor to the problem and a focus for action. We need to leverage the power of the network, to provide improved visibility and collaboration, transparency and regulatory compliance, to hold everyone accountable to the high standards of ESG."

Patrick Fetzer, president & CEO, Castolin Eutectic

"ESG offers a real competitive advantage and is becoming more and more important – not only for our investors and stakeholders, but also for our customers. Our customers are looking to us to be more ESG-compliant and to help them meet their targets. So, we are talking to our own suppliers and our customers are talking to us. This has momentum."



Nancy Hobhouse, head of ESG, Hermes

"ESG is not going to be a nice-to-have; it is going to be an essential. At present, it might be a competitive advantage, but in five or 10 years it will be life of death for your business. You will not be able to get the finance you need, or the contracts you want, unless ESG is integrated into your business. Everyone needs to start now."

Karen Alonardo, vice-president of ESG Solutions, Navex Global

"What I see in the future is that ESG becomes part of our DNA, operationally integrated, just common practice. With everyone doing the right things for the right reasons, we are building value creation across the whole supply chain. 'E', 'S' and 'G' are not individual silos. Compliance is a collaborative expression of what we believe will help drive things forward in an ethical manner, including all elements of ESG."